

**DEPARTMENT OF EDUCATION  
INCLUDING  
DIRECT AID TO PUBLIC EDUCATION**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2010**



## **AUDIT SUMMARY**

Our audit of the Department of Education and Direct Aid to Public Education for the year ended June 30, 2010, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation that require management's attention and corrective action; and
- no instances of noncompliance with applicable laws and regulations or other matters that required reporting.

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## DEPARTMENT OVERVIEW

The Department of Education (Education) has three functional areas, described in more detail below:

- Direct Aid to Public Education
- Central Office Operations
- Comprehensive Services Act for At-Risk Youth and Families

Education provides funding to localities for elementary and secondary public education through the Direct Aid to Public Education program. During fiscal year 2010, Education transferred nearly \$6.7 billion in state and federal funds to local school divisions. State funds make up approximately 80.6 percent of these funds, which support the Standards of Quality and other state programs.

Education's Central Office assists the 132 local public school systems by providing training, technical assistance, and monitoring their compliance with laws and regulations. Education helps teachers and other staff improve their skills by assisting school divisions, colleges, and universities in developing educational programs, and provides certain licensing and certification to school personnel. Education also serves as the pass-through agency for state and federal funds and determines the allocation of state money to local school divisions.

Education is the designated fiscal agent for the Comprehensive Services Act for At-Risk Youth and Families (CSA). Central Office staff process pool fund payments to localities for services performed assisting at-risk youth. We issued a separate report for CSA on December 8, 2010 and will include CSA in the 2010 Agencies of Secretary of Health and Human Resources audit report.

## FINANCIAL INFORMATION

Education primarily receives General Fund appropriations, which represent its share of state sales tax and other state tax revenues. Education also receives federal grants and collects fees for teacher licensure.

The following table summarizes budget and actual operating activity for fiscal year 2010 by Education's functional areas, and we provide more detailed financial information for each area in this report.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Direct Aid to Public Education	\$6,710,310,635	\$7,175,636,387	\$6,694,657,321
Central Office Operations	<u>117,660,690</u>	<u>117,442,395</u>	<u>83,412,295</u>
Total	<u>\$6,827,971,325</u>	<u>\$7,293,078,782</u>	<u>\$6,778,069,616</u>

*Source: Commonwealth Accounting and Reporting System*

### Direct Aid to Public Education

Education acts as a pass-through agency for state and federal funds and determines the allocation of funds to local school divisions. Essentially \$6.7 billion in state and federal funding went to local school divisions primarily for public education and local school functions. The following table summarizes these expenses by fund.

#### Analysis of Budget and Expenses for 2010

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General	\$5,319,941,500	\$4,768,079,933	\$4,760,976,994
Special	795,000	795,000	771,244
Commonwealth Transportation	2,173,000	2,173,000	2,173,000
Trust and Agency	20,129,100	129,100	120,000
Literary Fund	102,979,935	195,000,000	195,000,000
Lottery Proceeds	430,200,000	440,085,400	440,078,924
Federal	834,092,100	909,013,062	811,802,611
Federal Stimulus (ARRA)	<u>-</u>	<u>860,360,892</u>	<u>483,734,548</u>
Total	<u>\$6,710,310,635</u>	<u>\$7,175,636,387</u>	<u>\$6,694,657,321</u>

*Source: Commonwealth Accounting and Reporting System*

General Fund appropriations make up approximately 71 percent of the Direct Aid expenses. During the fiscal year, General Fund appropriations decreased over \$550 million due to statewide budget reductions. Overall, Education implemented more than half of the budget reductions by replacing General Fund appropriations with non-general funds, eliminating textbook funding, and re-benchmarking for inflation. Education also received additional federal funds under the American Recovery and Reinvestment Act (ARRA), which helped offset General Fund budget reductions. We discuss the ARRA State Fiscal Stabilization Fund in further detail below.

While localities did not take advantage of all of the federal funding available (stimulus and non-stimulus) in fiscal year 2010, some of these funds are available in the coming year. After December 2011, federal stimulus funding will not be available, at which time, if General Fund revenues do not return, policy makers will need to decide if the Commonwealth should provide the same level of aid to localities or discontinue services in other areas.

The following table shows Direct Aid transfer payments by program:

Direct Aid to Public Education Expenses by Program

	<u>Expenses</u>	<u>Percent</u>
State Education Assistance Programs	\$5,391,765,744	80.5%
Federal Education Assistance Programs	1,295,537,159	19.4%
Financial Assistance for Cultural and Artistic Affairs	<u>7,354,418</u>	<u>0.1%</u>
Total	<u>\$6,694,657,321</u>	<u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*

The majority of the expenses under the State Education Assistance Programs are transfer payments to localities for several different programs, of which the Standards of Quality funding makes up approximately 87 percent. Funding for the Standards of Quality is comprised of roughly 23 percent from Education's net revenue from the state sales and use tax and the remaining portion funded with other General Funds. Lottery profits from special state revenue sharing make up another eight percent of the State Education Assistance expenses. The Federal Education Assistance Program includes \$357 million of State Fiscal Stabilization Funds expenses.

The Stabilization Fund is an ARRA grant designed to assist states in filling budget deficits. Localities may use the grant for a wide variety of educationally related goods and services while targeting the following four specific areas:

1. Increase teacher effectiveness and address inequalities in the distribution of highly qualified teachers.
2. Establish and use a pre-kindergarten-through-college-and-career data system to track progress and foster continuous improvement.
3. Make progress towards rigorous college and career standards and highly qualified assessments that are valid and reliable for all students, including those with limited English proficiency and disabilities.
4. Provide targeted, intensive support and effective interventions to turn around schools identified for corrective action and restructuring.

Education also distributed two other ARRA grants in fiscal year 2010. Education received and allocated \$164.5 million in Title I ARRA in fiscal year 2010. Localities expensed approximately \$44.9 million of these grants, designed to assist children who are at risk of not meeting challenging academic standards and who reside in areas with a high concentration of children from low-income families. Education also allocated a total of \$290.9 million of stimulus funding to school divisions under the Individuals with Disabilities Education Act. Localities used \$77.5 million of these funds in fiscal year 2010. As noted above, stimulus funding is available to localities until December 2011.

The Standards of Quality set minimum standards for programs and services each local school board must provide. Education allocates funds to each locality based on demographic and census information gathered from local school divisions, following the provisions outlined in the Appropriations Act and Code of Virginia. Sales and use tax disbursements go to each school division using census data of school-age children within the school divisions. The school divisions receive direct lottery profit allocations based on the number of students each school division reports in the spring multiplied by the per pupil amount as determined by the General Assembly.

Education calculates most state payments using the Average Daily Membership (ADM) for each school division and the total agency appropriation. Local divisions receive these payments twice per month throughout the fiscal year. At the beginning of the fiscal year, Education makes a preliminary calculation of 24 equal installment payments for each school division. After each school division reports its actual ADM as of March 31, Education adjusts the remaining installment payments to reflect each school division's actual ADM. The following table shows expenses in Direct Aid over the last four fiscal years.

Costs per Pupil for Fiscal Years 2007-2010 (All Funds)

	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2010</u>
Direct aid to localities expenses*	\$ 6,543,836	\$ 6,655,258	\$7,040,234	\$ 6,694,657
Total students**	1,189,904	1,191,836	1,195,326	1,203,823
Per pupil expenses***	\$ 5,499	\$ 5,584	\$ 5,890	\$ 5,561
Total teachers****	99,231	100,438	100,908	99,524

\* *Dollars in thousands*

\*\* *Final March 31, adjusted average daily membership (ADM)*

\*\*\* *Direct Aid to localities expenses divided by total students*

\*\*\*\* *Reported from the Instructional Personnel Report for corresponding school years*

In fiscal year 2010, total Direct Aid expenses decreased about \$345 million from fiscal year 2009 levels primarily due to the \$550 million in General Fund budget reductions offset by Stabilization Funds. While Education allocated \$584 million of the Stabilization Fund in fiscal year 2010, school divisions only used approximately \$357 million. Education plans to allocate an additional \$126 million of Stabilization Funds in fiscal year 2011. Localities have until September 30, 2011 to obligate these funds and December 31, 2011 to spend the funds, or they will revert to the Federal Government. The Stabilization Funds postponed many potential budget cuts for the localities until fiscal year 2012. Once these funds are no longer available, localities may experience dramatic cuts unless the economy improves or other funding sources materialize.

## Central Office Operations

### Analysis of Budget and Expenses for 2010

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General	\$ 52,669,517	\$ 49,681,828	\$49,281,487
Special	5,830,419	6,380,419	2,809,306
Commonwealth transportation	240,942	240,942	230,594
Trust and agency	279,663	279,663	44,366
Federal	<u>58,640,149</u>	<u>60,859,543</u>	<u>31,046,542</u>
Total	<u>\$117,660,690</u>	<u>\$117,442,395</u>	<u>\$83,412,295</u>

*Source: Commonwealth Accounting and Reporting System*

Central Office's expenses were approximately \$34 million less than budgeted. This reduction occurred because Education overestimated the federal funds it would receive. Education's federal budget included appropriations for programs that the federal government did not fund, grants that were no longer active, expenditures now paid from the Direct Aid to Localities budget, and new federal grant funding that did not materialize. It is our understanding that Education and the Department of Planning and Budget are working to adjust the budget for fiscal years 2011 and 2012 to better reflect Education's budgetary needs.

The General Fund budget decreased by approximately \$3 million due to statewide budget reductions. Education implemented this reduction by eliminating filled and vacant personnel positions and replacing General Fund appropriations with non-general funds. Education offset some of the General Fund budget reductions by using additional ARRA funding.

Most of Central Office expenses are for contractual obligations associated with the Standards of Learning testing contract with NCS Pearson, Inc. In fiscal year 2010, NCS Pearson, Inc. received \$37.3 million in combined state and federal funds. Payroll and other personal services costs consist of roughly 31 percent of the total expenses for the Central Office in fiscal year 2010.

### Central Office Operation Fiscal Year 2010 Expense Analysis

Contractual Services	\$ 49,537,973
Personal Services	26,032,353
Transfer Payments	5,882,448
Continuous Charges	1,481,984
Supplies and Materials	320,041
Equipment	<u>157,495</u>
Total	<u>\$ 83,412,294</u>

*Source: Commonwealth Accounting and Reporting System*





# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

December 8, 2010

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Department of Educating, including Direct Aid to Public Education** (Education) for the year ended June 30, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

Our audit's primary objective was to evaluate the accuracy of the Department of Education's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2010 and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recording financial transactions in the Commonwealth Accounting and Reporting System and in Education's accounting records, reviewed the adequacy of Education's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

Education's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Federal grant revenues and expenses  
Contractual services expenses

Travel expenses  
Financial assistance and incentives payments  
Appropriations  
Information security

We performed audit tests to determine whether Education's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that Education properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Education records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

### Exit Conference and Report Distribution

We discussed this report with management on December 8, 2010.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/alh

DEPARTMENT OF EDUCATION

Patricia I. Wright  
State Superintendent of Public Instruction

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